

INDUSTRY UPDATE

Biweekly Period Ending September 22, 2001

Note: This issue includes the period affected by the Sept. 11th terrorist attacks.

Phoenix Metro Area

Manufacturing

Valley-based Honeywell Aerospace said it will **eliminate 1,500 Phoenix-area jobs** as part of a worldwide **retrenchment of 4,800 positions**. The **division of New Jersey-based Honeywell International**, which **employs 14,000 Valley workers**, makes a variety of products for commercial aircraft, operating eight plants in the Valley and another in Oro Valley north of Tucson. The layoffs — which come on top of 9,000 Honeywell International job cuts (800 in the Valley) announced earlier this year — are due to an expected decline in demand for commercial aircraft partly because of the terrorist attacks. For example, one of Honeywell's primary contractors, Boeing Corp., announced it expects to idle 30,000 workers at its Seattle commercial airplane plants by the end of 2002.

Scottsdale is home to **two up-and-coming manufacturers** that have been in the news lately. Although small in size, consolidation of operations at a new facility in Scottsdale Airpark by a developer of semiconductor components may pay dividends in jobs down the road. **National Scientific Corp.**, which **employs about 10 people**, will **merge** its Phoenix and San Jose, Calif., **operations** in early October. The company designs and licenses products — low-power memory, amplifiers — used in small environments, such as laptop computers and cell phones. It has also designed a super-speed semiconductor device that is similar to a product announced with great fanfare by Motorola in September. The other high-flying Scottsdale business is

Medicis, a pharmaceutical company that **produces skin-care products**. Medicis has issued one new product a year the past 10 years, including Dynacin, the No. 1 oral treatment for acne. The company plans to **expand its nationwide sales force** by 25 percent.

Construction

The off-and-on **Scottsdale Waterfront project** is **off again**. The planned 11-acre **mixed-use development** at Scottsdale and Camelback roads hit another roadblock in mid-September when the **two current developers** (Artemis Realty Investors and Starwood Western Capital) decided to **dissolve their partnership**. Concerns over the viability of the office building and hotel portion of the project, in light of the weakened economy and terrorist events, led to the deal's demise. A residential- and retail-only development is now envisioned. Prior to this agreement, a much larger project was planned by another developer, but concerns over the project's size and scope led to it being scrapped.

Transportation, Communications, and Public Utilities

As a direct result of the terrorist attacks, **two Valley-based airlines announced major cutbacks** in mid-September. Tempe-based **America West Airlines** reduced its flight schedule 20 percent and **laid off 2,000 employees**. America West, which had 14,000 employees system-wide prior to the cuts, said the layoffs would be implemented by attrition, deferred hiring, and selected reductions in force. **No specific information** was given about the **number of people** affected **in Arizona**, but the company notified the state — through the federal Workforce Adjust-

ment and Retraining Notification Act (WARN) program — that it was laying off 2,000 workers, so it's likely most of those affected will be in Arizona. At the same time, Phoenix-based **Mesa Air Group Inc.** said it would **lay off 700 employees** system-wide, **including 200** of its **1,000 Valley workers**. The company, which operates New Mexico-based Mesa Airlines, employed about 4,000 people prior to the cuts.

Finance, Insurance, and Real Estate

A \$7.7 billion **bankruptcy plan** for Scottsdale-based **Finova Group Inc.** (see Aug. 25th *Industry Update*) may be **in jeopardy** due to events associated with the terrorist attacks. One of the backers of the plan, Berkshire Hathaway Inc., said it would not buy \$500 million worth of \$3.25 billion in bonds issued to creditors in September. Berkshire Hathaway and Leucadia National Corp. formed Berkadia LLC as part of the bankruptcy plan to hold a 50 percent stake in Finova. But concern about potential losses for Finova, which specializes in leasing aircraft (\$1.8 billion in leases), and its own exposure as the nation's largest reinsurer (insurer for insurance companies) has given Berkshire Hathaway "cold feet."

Unrelated to the terrorist attacks, insurer **USAA** announced in August that it was **cutting nearly 1,400 jobs**, or 6 percent of its workforce. The job cuts, however, were **not expected** to **affect USAA's new customer service center** in **north Phoenix**, which plans to **add a couple hundred workers** to its workforce of 300 by the **end of the year**. Eighty-five percent of the cuts, which were necessitated by a drop in earnings, were planned for the company's corporate headquarters in San Antonio. For job information, see the firm's Internet site (www.usaa.com.)

Trade

Bartlesville, Okla.-based **Phillips Petroleum Co.** implemented the **first of several expected job cuts** after it officially completed

its **takeover of Tosco Corp.** in mid-September. About **20 employees** of Tempe-based **Tosco Marketing**, which oversees the operation of 6,400 Circle K convenience stores, were **laid off**, with more of the former Tosco subsidiary's 1,364 employees expected to get unemployment notices. In July, the Tosco division laid off 200 employees in anticipation of the merger. It's expected that Phillips will sell off a portion of the Circle K stores.

Services

Valley (and most Arizona) hotels, which were already **facing a weak year** and an uncertain tourism season, were **set back** even further **by the terrorist attacks**. Dependent on airline travel (40 percent of guests come by plane), Valley hotels lost a number of conventions, with some facilities experiencing single-digit occupancy rates immediately after the attacks. **Layoffs** and **reduction in hours across all hotel occupations** were the norm following the Sept. 11th events.

One industry that hasn't been affected by the terrorist attacks is health care. And **Good Samaritan Regional Medical Center**, 3rd Street and McDowell Road, is celebrating its 90th birthday by announcing plans for a **\$90 million expansion** of its central Phoenix operations. Good Samaritan **will increase bed capacity from 508 to 625; add a new intensive care unit**, which is expected to open in January; construct a **new facility** to house **ambulatory care, medical imaging, and cardiac services**; and build a **new parking structure**. The **entire project** is expected to be **completed by 2004**. Good Samaritan is a subsidiary of Banner Health Systems, which operates hospitals in 14 states, including six others in the Valley.

Another industry apparently untouched by the Sept. 11th events is **real estate**. One company "bullish" on the Valley is **CMX Group Inc.**, a **civil engineering** and **land-management** company. CMX, which employs 140 in the Phoenix metro area, is **expanding its operations**, in light of its in-

volvement with numerous residential projects throughout Maricopa County and potential work at airports that need to be redesigned for security reasons.

Tucson Metro Area

Manufacturing

An Antioch, Calif.-based **company** that makes miniaturized motors **opened a design and production facility** (3925 E. 29th St.) in September. **NanoMuscle Inc.**, which produces lightweight motors for toys, cars, and appliances, expects to **employ 25 people within a year**. NanoMuscle, which wants to license its technology to other manufacturers, is producing machines that make one motor every five seconds. What distinguishes NanoMuscle's motors from others is that it has no gears, but instead relies on electricity to expand and contract in a straight line. The key to allowing the motor to operate in this way is the flexibility of motor's material, called "shape-memory alloy."

Balance of State

Manufacturing

A Rim Country job fair by a Valley **wood-furniture manufacturer relocating to Payson** attracted nearly 200 people in mid-September. Chandler-based **The Door Stop** expects to **employ 60** when it opens its doors next year at the Sky Park Industrial Park. Starting pay for nonsupervisory personnel will range from \$7.50 an hour to \$12 an hour, high wages by Payson standards.

Trade

Arizona towns along the Mexican border saw their **sales drop by up to 50 percent** two weeks after the terrorist attacks. **Long lines at border crossings** due to heightened security have **hurt merchants** in cities such as Douglas and Yuma. The governments of those cities are also losing significant amounts of revenue from sales taxes. For example,

Douglas normally takes in \$300,000 a month in sales tax, of which about 40 percent comes from Mexican shoppers.

Transportation, Communications, and Public Utilities

Tax and environmental concerns could **scuttle plans** for or **hinder construction of two power plants** (one in the U.S. and one in Mexico) along **Arizona's southern border**. A planned **\$300 million electric generating facility 20 miles east of Yuma**, scheduled to be operational in 2004, **could cause tax problems** if its developers form a limited liability corporation. In that case, the plant may be partially or fully exempt from property taxes, potentially costing Yuma County \$2.3 million a year. Although Yuma County officials want the power plant, they are lobbying the Arizona Corporation Commission against approving a limited-liability corporation, thus possibly scuttling the project. Meanwhile a **power plant under construction in Agua Prieta, Sonora, Mexico** (across the border from Douglas) has come under fire because of concerns over water use and air pollution. Effluent water from Douglas is needed to cool the natural gas-fired plant, but there are questions if

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there will be enough water available and concerning the potential contamination of the water when it is returned to the system. Although it's likely the plant will be completed, several construction modifications may be needed to alleviate environmental concerns. (For a related story, see Sept. 8th *Industry Update*).

Statewide

Transportation, Communications, and Public Utilities

Slower growth will force **Qwest Communications International** to **cut 4,000 jobs**, or 6 percent of its workforce. About **one-third** of the **cuts** will come from the corporate headquarters **in Denver**. **No information** was available on the **potential effects on Arizona's 7,500 Qwest employees**.